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ENTREPRENEURSHIP

Hurricane Joaquin Highlights the Importance of Plans to Keep Operating

By **CONSTANCE GUSTKE** OCT. 7, 2015

Hurricane Joaquin's wild ride up the East Coast over the last week stirred up chilling memories for William Bauer, managing director of Royce Leather in New Jersey. The family business already went through Hurricane Sandy, which flooded the fulfillment center in Secaucus, ruining many fine leather goods like wallets and briefcases. A \$100,000 server, which held vital customer records, was also destroyed.

"The ground felt like it was caving in around me," recalled Mr. Bauer, 24. "I was talking to my psychologist three times a week."

Concerned about what seemed to be a rising number of violent storms, the family decided it would not be caught unprepared again.

Royce now has a simple, three-page business continuity plan to help it stay operating when disaster strikes. It focuses on basic strategies like quickly restoring power, emailing customers and using a work-from-home policy for its employees.

"We stepped back and surveyed what went wrong," Mr. Bauer said, "and what we could do right." The goal, he added, was to be as prompt, personable and transparent as possible.

Today, Royce, which has 29 employees and did \$6 million in business last year, is among the few small businesses that have plans in place for managing weather disasters. According to the 2015 Travelers Business Risk Index, 21 percent of small businesses have continuity plans. Yet the effects of lack of planning can be devastating. As many as 40 to 60 percent of small businesses never recover after being hit by natural disasters, according to the Federal Emergency Management Agency.

After a dam broke last weekend and flooded LaBrasca's Pizza in Columbia, S.C., the restaurant closed indefinitely. Milly Block, a co-owner, estimated that repairs alone would cost over \$50,000, and thousands of dollars in revenue would be lost each week.

"The restaurant is totally ruined," said Ms. Block. She said LaBrasca's has no business continuity plan or flood insurance and will apply for FEMA aid. "I cried a lot when I saw it."

Even brief, simple plans can help small businesses get back on their feet, no matter what the disaster, experts say.

And continuity planning is increasingly important, said Scott Teel, education director at Agility Recovery Solutions, based in Charlotte, N.C. He has teamed up with the Small Business Administration to create PrepareMyBusiness.org, which has many crisis management tools that can help businesses endure weather disasters, including wildfires and hurricanes. Ready.gov is another helpful federal government site.

Small businesses, especially, need all the crisis planning they can get.

They typically rely on a single location, which makes them especially vulnerable, Mr. Teel said. And owners wear many hats and are usually more focused on generating revenue than anticipating the next disaster.

"There's also the belief that these plans are too costly and time-intensive,"

Mr. Teel said. “Yet a week without income can cause debt defaults and missed payrolls.” Even relying on insurance coverage to replace lost income cannot replace clients, he added.

That is why the best protection, Mr. Teel and many other experts say, is developing a continuity plan that plots out responses to different disaster situations. It targets the biggest business risks and critical functions that keep revenue flowing. The plan, he adds, does not have to be a 50-page tome with a binder.

“Any plan will put you light years ahead of other small businesses,” Mr. Teel added. “This is where the rubber meets the road.” Some big companies now even require small businesses to have a continuity plan in place before they will work with them, experts said.

Continuity plans that are never used can even help improve business profitability, said Donna R. Childs, author of the small-business book “Prepare for the Worst, Plan for the Best.”

“You’ll have better systems in place and have good records that are digitized,” said Ms. Childs, a former Swiss Reinsurance executive. “It takes a good planner.” Small businesses may even be able to get better insurance rates, she added, since they have created strategies for handling weather disasters.

The process can be easily be broken into five steps. “Most of them are simple,” said Al Berman, president of the Disaster Recovery Institute. “They include keeping track of resources, inventory, personnel and physical sites.” The plan should be written and stored in the cloud, as in a Google document, for example, so it can be retrieved anywhere.

Step 1 is analyzing a business’s critical functions. Many businesses just focus on the technology part, experts say, without considering customers, products, suppliers and employees that need to be protected.

“People misjudge their critical resources,” Ms. Childs said. “They may just try to protect physical assets.”

Royce’s continuity plan, for example, is divided into five important departments, including sales, accounting and fulfillment. To pull it together, Mr. Bauer asked each department head one main question: If the business was closed for a week or two, what problems would you be facing? And what must be done first?

“Our plan is a team effort,” he said. “And it means taking into account the many voices of a company.”

Step 2 is focusing on risks that could topple the business. These risks could be damaged inventory, lost data or irate customers. Think about your crucial assets and how they would be affected, Ms. Childs said. What would happen if your office was closed for 24 hours?

For restaurants and other food companies, spoilage is a big expense. Fresh Diet, which delivers healthy meals in 44 metropolitan areas daily, has tweaked its continuity plan on an ongoing basis. Several years ago, chefs in the Brooklyn, N.Y., kitchen cooked all day, but meals could not be delivered to Boston and elsewhere because of a severe winter storm. So the food was donated to homeless shelters.

Today, Fresh Diet has an eight-step plan that slashes food waste when disasters strike. Managers of the company’s five culinary centers across the United States offered suggestions on each step of the plan, which includes changes in delivery logistics and notifying customers.

Step 3 creates strategies to protect crucial parts of the business. For example, manufacturers might want to think of alternate suppliers. Company inventory can be put in more than one location. Customers can be contacted via text messages, Facebook or email. Employees can stay connected by using a list compiled in advance. And data can be protected by storing it in the cloud

rather than on an office server.

And, in some cases, facilities need to be shored up, too.

Lynmar Estate, a winery in Sonoma County, Calif., that produces chardonnay and pinot noir, has a continuity plan that factors in earthquakes and droughts.

“Every employee has to read it,” said Lynn Fritz, the vineyard’s founder. Water tanks and wells make water available. And to protect the wines, Mr. Fritz stores them in caves that are seismically certified to withstand an earthquake. Barrels are also secured so they can’t get loose. “Earthquakes are the hardest to plan for,” he said. “Other weather disasters are slow onset.”

Other small businesses may need to think about relocating an office, perhaps using temporary conference rooms or even moving into a local church’s empty office, Mr. Teel said.

Businesses might also want to think about interruption insurance, Ms. Childs said. It covers the loss of income after a disaster. The Small Business Administration also offers loans. “But it’s better to be insured than to rely on a loan,” Ms. Childs advised.

Step 4 means testing the plan. This phase is the most-forgotten step, experts say. Small businesses can merely go through checklists, though, or even run a table top test, which is explained at PrepareMyBusiness.org.

Finally, plans should be updated every year, including the contact list, Ms. Childs said.

After the plan is finished, added Ms. Childs, have a lawyer, accountant and especially an insurance company look it over. “They can see if there are any holes left to fill in,” she said.

Royce Leather updated its continuity plan this week. After the lease runs

out, the Secaucus, N.J., fulfillment center will be moved to a building higher above sea level. The building's data center has already been reinforced with brick, so it is "nearly impossible to flood," Mr. Bauer says.

"You can't prevent bad things from happening," he said. "But you can change how you respond."

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